

CITY OF PATON

**INDEPENDENT ACCOUNTANT'S REPORT
ON THE STATUS OF PERIODIC EXAMINATION
FINDINGS AND RECOMMENDATIONS**

**FOR THE PERIOD
DECEMBER 1, 2015 THROUGH MAY 31, 2016**

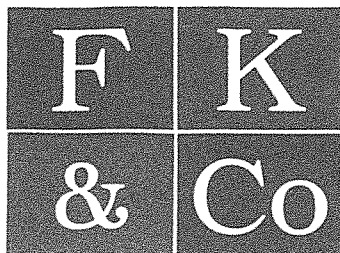
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City of Paton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>(Before January 2016)</u>		
Brad Robey	Mayor	Dec 2015
Steve Burrell	Council Member	Dec 2015
Kevan Hoeffling	Council Member	Resigned
Steve Joy	Council Member	Dec 2015
Casey Kaufman	Council Member	Dec 2017
Matt Fox	Council Member	Dec 2017
Mary Phillips	City Clerk	Indefinite
David Morain	City Attorney	Indefinite
<u>(After January 2016)</u>		
Steve Burrell	Mayor	Dec 2017
Eric Geisler	Council Member	Dec 2019
Diane Hanlon	Council Member (appointed)	Dec 2017
Judy Wilson	Council Member	Dec 2019
Casey Kaufman	Council Member	Dec 2019
Matt Fox	Council Member	Dec 2017
Mary Phillips	City Clerk	Indefinite
David Morain	City Attorney	Indefinite



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on the Status of Periodic
Examination Findings and Recommendations

To the Honorable Mayor
and Members of City Council:

Faller, Kincheloe & Co, PLC issued a Periodic Examination Report dated December 15, 2014 on the City of Paton, Iowa covering the period August 1, 2013 through July 31, 2014 pursuant to Chapter 11.6 of the Code of Iowa. The report included certain findings and recommendations pertaining to the City's financial processes and compliance with laws and regulations.

This report includes the findings and recommendations from the City's Periodic Examination Report dated December 15, 2014 and the current status of the City's implementation of the recommendations included in that report. It also includes additional findings and recommendations for other issues identified during our follow-up procedures.

The City Council has a fiduciary responsibility to provide oversight of the City's operations and financial transactions. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Many of the findings included in this report indicate the City Council needs to exercise additional fiduciary oversight.

Oversight by the City Council is essential and should be an ongoing effort by all members. The City Council should exercise due care and require and review pertinent information and documentation to ensure the reliability of financial information and compliance with laws and regulations. Appropriate policies and procedures should be adopted, implemented and monitored to ensure compliance.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Paton and other parties to whom the City of Paton may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Paton during the course of our follow-up procedures. Should you have questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Faller, Kincheloe & Co, PLC

October 6, 2016

CITY OF PATON

Report on the Status of Periodic Examination Findings and Recommendations

Findings Reported in the Periodic Examination Report dated December 15, 2014:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
3. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
4. Payroll – recordkeeping, preparation and distribution.
5. Utilities – billing, collecting, depositing and posting.
6. Financial reporting – preparing and reconciling.
7. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

Current Status – Not corrected. The recommendation is repeated.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

Current Status – Not corrected. The recommendation is repeated.

- (C) Clerk's Report – A monthly Clerk's report, including a summary of revenues, disbursements, ending balances by fund and a budget vs actual comparison, is not prepared.

Recommendation – The City Clerk should prepare a monthly Clerk's report which includes a summary of receipts, disbursements and ending balances by fund. Also the Clerk's report should show a budget vs actual comparison. The City Council should review and approve the Clerk's report monthly.

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Report on the Status of Periodic Examination Findings and Recommendations

Current Status – Partially corrected. The Clerk's report for the four meetings tested included a list of revenues, a list of disbursements (but not by fund), and ending bank balances; however the beginning balances for several of the bank accounts in one month were incorrectly reported as the ending balances. Ending balances by fund were not included and budget vs actual comparisons were not included.

(D) **City Council Minutes** – The following were identified:

- All four City Council meetings tested were not signed as required by Chapter 380.7 of the Code of Iowa.
- Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within fifteen days of the meeting. Minutes for one meeting tested were not published within fifteen days.
- Chapter 372.13(6) of the Code of Iowa requires the minutes of all City Council proceedings to include total disbursements from each fund. We noted that this requirement was not met by the City for the meetings tested.

Recommendation – The City should comply with Chapters 380.7 and 372.13(6) of the Code of Iowa.

Current Status – Partially corrected. The Clerk is not signing the minutes as required by Chapter 380.7 of the Code of Iowa. The minutes tested were published timely. The minutes tested did not include total disbursements by fund.

(E) **Investment Policy** – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

(F) **Official Depositories** – A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required.

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Report on the Status of Periodic Examination Findings and Recommendations

Current Status – Not corrected. The recommendation is repeated.

- (G) Chart of Accounts – The City has not fully implemented the Uniform Chart of Accounts (COA) for Iowa City Governments approved by the City Finance Committee on September 25, 2002.

Recommendation – To provide better financial information and control, the COA, or its equivalent, should be followed.

Current Status – Not corrected. The recommendation is repeated.

- (H) Local Option Sales and Services Tax – The City imposed a local option sales tax in the City with receipts to be allocated 100% for property tax relief. All of the local option sales tax receipts are recorded in the General Fund. Documentation was not maintained to demonstrate that the local option sales tax receipts were spent in accordance with the provisions of the referendum authorizing the collection of the tax.

Recommendation – The City should maintain documentation to demonstrate local option sales tax collections are in compliance with the provisions of the referendum.

Current Status – Not corrected. The recommendation is repeated.

- (I) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

Current Status – Not corrected. The recommendation is repeated.

- (J) Surety Bond Coverage – Surety bond coverage for City officials and employees was not maintained for the year ended July 31, 2014 as required by Chapter 64 of the Code of Iowa.

Recommendation – The City should comply with Chapter 64 of the Code of Iowa and periodically review its coverage for adequacy.

Current Status – Corrected. Bond coverage for City officials and employees was in place during the time period tested.

CITY OF PATON

Report on the Status of Periodic Examination Findings and Recommendations

- (K) Insurance Property Tax Levy – The City levies a tax to pay for liability insurance coverage. The proceeds of this tax are used to pay all the cost associated with liability insurance coverage. However, the costs incurred by the Enterprise Funds for liability insurance coverage should be charged to each Enterprise Fund instead of the tax levy for liability insurance coverage as provided for in Chapter 384.12(17) of the Code of Iowa.

Recommendation – Cost incurred for liability insurance coverage for the Enterprise Funds should be charged to the Enterprise Funds.

Current Status – Not corrected. The recommendation is repeated.

- (L) Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the general government and business-type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.” Also the budget showed two funds, Debt Service and the Permanent Fund, which actually do not exist on the City records.

The City did not properly budget for local option sales tax receipts even though the City has received these funds for many years.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. Also the City should establish procedures to review the budget preparation and related documents to ensure accuracy.

Current Status – Not corrected. Actual expenses in the year ended June 30, 2015 exceeded the budget in the public works, culture and recreation, general government, and business type activities functions. The budget for the year ended June 30, 2016 included TIF revenue of \$25,000 even though the City has not certified any TIF debt. The budget for the year ended June 30, 2016 did not properly budget for local option sales tax receipts.

- (M) Annual Financial Report - Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City...”. The City’s Annual Financial Report reported receipts, disbursements, transfers and fund balances which do not agree with the City’s records.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City’s records.

Current Status – Not corrected. The recommendation is repeated.

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Report on the Status of Periodic Examination Findings and Recommendations

- (N) Financial Condition – At June 30, 2014, the City had deficit balances of \$32,386 and \$13,000 in the General and Debt Service Funds, respectfully.

Recommendation – The City Council should investigate alternatives to eliminate these deficits and return the funds to a sound financial position.

Current Status – Not corrected. The recommendation is repeated.

- (O) Bank Reconciliations – Although monthly bank reconciliations were performed, the reconciliations contained outstanding items that were inaccurate.

Recommendation – The City should establish procedures to ensure bank account balances are reconciled to the general ledger monthly. Variances, if any, should be reviewed and resolved timely. In addition, an independent person should review all bank reconciliations and document their review by signing or initialing and dating the reconciliations.

Current Status – Partially corrected. Bank reconciliations are being performed, but they are not being reviewed by an independent person.

- (P) Journal Entries – Journal entries are not reviewed and approved by an independent individual.

Recommendation – An independent person should review and approve journal entries. Approval should be documented by signing or initialing and dating the journal entries.

Current Status – Not corrected. The recommendation is repeated.

- (Q) Payroll – The following were identified:

- Timesheets tested did not include evidence of supervisory approval.
- Timesheets were not maintained for some employees.
- The salary amount paid to one employee was different than the salary resolution amount approved by the City Council.
- The City did not prepare any IRS Forms 1099-Misc. for the year ended December 31, 2013. We noted that the City should have issued Forms 1099-Misc. for the year ended December 31, 2013.
- The Mayor Pro-tem pay was not established by ordinance, as required by Chapter 372.13(8) of the Code of Iowa.

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Report on the Status of Periodic Examination Findings and Recommendations

Recommendation – Timesheets should be prepared by all personnel. All timesheets should be reviewed and approved by supervisory personnel prior to processing payroll. The City Council should approve pay rates for all City employees, with the approval documented in the City Council minutes. Also the City should file IRS Forms 1099-Misc. when applicable. The City Council should also update the ordinance authorizing the wages for the Mayor Pro-tem pay.

Current Status – Partially corrected. The timesheets tested did not indicate supervisory approval. Timesheets were maintained for each employee paycheck tested. The salary amounts paid agreed with the salary resolution approved by the City Council. Payroll reports were filed as required and no payments were noted that would have required a Form 1099. A Mayor Pro-tem was not paid during the period tested. In addition, see finding (Z).

- (R) Employee Benefits Tax Levy – The City levies property taxes for employee benefit purposes. It appears the City included employee benefits related to employee salaries paid from the Enterprise, Sewer and Gas Funds in its property tax levy. Per Iowa Administrative Code 545, Ch. 4, the employee benefits levy is only for employee benefits related to employee salaries from the General Fund and the Special Revenue, Road Use Tax Fund.

Recommendation – When calculating the employee benefits levy, the City should exclude employee benefits related to salaries paid from the Enterprise, Sewer and Gas Funds.

Current Status – Not corrected. The recommendation is repeated.

- (S) Disbursements – Certain invoices were not approved by the City Council. Also, invoices and other supporting documentation were not always available to support disbursements. Supporting documentation for one transaction tested could not be located.

Recommendation – All disbursements should be supported by invoices or other supporting documentation and approved by the City Council.

Current Status – Not corrected. The recommendation is repeated.

- (T) Disbursement Approval – The City Council approves disbursements at each monthly meeting after the invoices have been paid.

Recommendation – The City could adopt a written disbursement policy to allow payment of certain bills prior to City Council approval. All City disbursements should be approved by the City Council prior to disbursement with the exception of those specifically allowed by a policy. For those disbursements paid prior to City Council approval, a listing should be provided to the City Council at the next City Council meeting for review and approval.

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Report on the Status of Periodic Examination Findings and Recommendations

Current Status – Not corrected. The recommendation is repeated.

- (U) Sales Tax Refunds – The City has not applied for and received sales tax refunds on completed projects. The City has also not issued an exemption certificate for the contractor required by Chapter 423.3(80)(b) of the Code of Iowa.

Recommendation – The City should apply for sales tax refunds on all completed contracts and for all future contracts the City should issue exemption certificates as required by Chapter 423.3(80)(b) of the Code of Iowa.

Current Status – Corrected. There were no projects during the time period tested that would have been subject to the issuance of an exemption certificate.

- (V) Sewer Revenue Note – The City was unable to provide documentation regarding the requirements of the Sewer Revenue Note with the USDA. As a result, the City was unable to provide to us the continuing compliance provisions in relation to this note. This note was fully paid off in fiscal year 2014.

Recommendation – The City should retain documentation relating to any bonds or notes on all future debt issuances.

Current Status – Corrected. The note in question was paid off prior to the time period tested, and no new notes were outstanding that would have included compliance requirements.

- (W) Employee Benefits – In lieu of providing a group health insurance policy, the City Council approved providing up to \$3,300 to reimburse an individual employee for health insurance premiums and/or deductibles. These reimbursements were not included as compensation to the employee and not included in their W-2.

We were unable to review the information necessary to determine if these reimbursements were in compliance with federal requirements and the Affordable Care Act.

Recommendation – The City should take the necessary steps to ensure the proper reporting of these reimbursements.

Current Status – Not corrected. The recommendation is repeated.

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Report on the Status of Periodic Examination Findings and Recommendations

(X) Accounting Records – The City’s accounting records are not materially accurate. Instances of these inaccuracies are as follows:

- On the trial balance, the beginning cash balances for all funds as of July 1, 2014 is \$0. The July 1, 2014 cash balance for each fund should agree to the June 30, 2014 cash balance for each fund.
- On the general ledger, road use tax receipts are recorded as either a liability or a reduction of a disbursement. All road use tax receipts should be recorded as a receipt in the Special Revenue, Road Use Tax Fund.

Recommendation – The City should implement procedures to ensure the accounting records are accurate and properly reflect the financial activity of the City.

Current Status – Not corrected. The recommendation is repeated. There are continuing significant discrepancies in the City’s accounting records.

(Y) Special Revenue Levies – Chapter 384.8 of the Code of Iowa provides a City may establish an Emergency Fund and transfers may be made from the Emergency Fund to the General Fund. The City credited the emergency tax levy to the General Fund rather than establishing a separate fund.

The City also levied property tax for employee benefits, as allowed by Chapter 384.6 of the Code of Iowa, and recorded the property tax collections in the General Fund rather than establishing a separate fund as required.

Recommendation – The City should establish separate Special Revenue Funds for these special tax levies, as required.

Current Status – Not corrected. The recommendation is repeated.

Additional Findings as a Result of Follow-up Procedures:

(Z) Documentation of Raises in Minutes – One employee’s raise was recorded in the minutes as a percentage increase without stating the amount being paid.

Recommendation – The minutes should clearly state the amount of compensation (salary or hourly amount) being paid to each employee.

CITY OF PATON

Report on the Status of Periodic Examination Findings and Recommendations

(AA) Certified Budget –The City of Paton’s budget was adopted by motion of the City Council. Chapter 384.16(5) of the Code of Iowa states, in part, “... the Council shall adopt by resolution a budget...”

Recommendation – The budget should be adopted by resolution of the City Council in accordance with Code of Iowa requirements.